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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Bell Atlantic Telephone Companies	)	Transmittal Nos. 741, 786
	)	
Revisions to Tariff F.C.C. No. 10	)	CC Docket No. 95-145
	)	
Rates, Terms, and Regulations For Video Dialtone Service in Dover Township, New Jersey	)	

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AT&T'S COMMENTS ON DIRECT CASE

Pursuant to the Commission's Designation Order, AT&T Corp. ("AT&T") submits these comments on Bell Atlantic Telephone Companies' ("Bell Atlantic's") Direct Case.[1]

On January 27, 1995, Bell Atlantic filed Transmittal No. 741[2] to introduce the first tariff for a

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1 Bell Atlantic Telephone Companies Revisions to Tariff F.C.C. No. 10 Rates, Terms, and Regulations for Video Dialtone Service in Dover Township, New Jersey, Transmittal Nos. 741, 786, CC Docket No. 95-145, released September 8, 1995 ("Designation Order"). Bell Atlantic's Direct Case was filed October 26, 1995. Oppositions and Comments are due November 30, 1995 and Bell Atlantic's rebuttal is due December 20, 1995.

2 Transmittal No. 741 was later revised by Transmittal No. 786.

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commercial video dialtone ("VDT") service offering.[3] This offering would provide video programmers the ability to transmit video programs over Bell Atlantic's broadband network. Several parties, including AT&T, filed petitions to reject or, in the alternative, suspend and investigate the rates, terms and conditions of Transmittal No. 741. Those petitions were filed, in part, because Bell Atlantic failed to provide sufficient cost information to enable a proper analysis of Bell Atlantic's proposed rates.[4]

The Commission, in its Suspension Order,[5] suspended for one day the VDT tariff filed by Bell Atlantic and initiated an investigation into the lawfulness of the tariff. In the Designation Order, the Commission identified numerous issues for investigation in order to determine whether the rates in the Dover video dialtone tariff are adequately justified and whether the terms of that tariff are reasonable.[6] As part of the

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[3] The Bell Atlantic tariff makes the service available only in Dover Township, New Jersey.

[4] See Bell Atlantic Telephone Companies Revisions to Tariff F.C.C. No. 10, Transmittal No. 741, AT&T's Petition to Reject or, in the Alternative, to Suspend and Investigate, filed February 21, 1995, pp. 4-6.

[5] Bell Atlantic Telephone Companies Revisions to Tariff F.C.C. No. 10 Rates, Terms, and Regulations, Order, DA 95-1285, released June 9, 1995 ("Suspension Order").

[6] Designation Order at para. 1.

investigation, the Commission directed Bell Atlantic to provide specific information related to the allocation of investments associated with the service.

AT&T's comments focus on two areas in which Bell Atlantic failed to provide sufficient information in response to the Commission's requests. First, Bell Atlantic did not adequately explain the methodology used to derive video dialtone service investment expenses.[7] Second, Bell Atlantic did not provide the support necessary to demonstrate that embedded investment will be properly allocated to VDT services.[8] Without the information related to these two issues, it is impossible to analyze properly Bell Atlantic's Direct Case to determine whether Bell Atlantic's voice services are subsidizing VDT services or if its Part 36 and Part 69 calculations are proper.[9] The Commission cannot determine the lawfulness of Bell Atlantic's VDT tariff unless and until Bell Atlantic provides sufficient information to

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7 This issue is identified by Bell Atlantic in its Direct Case as Pre(4) at pp. 8-11.

8 Identified as Issue A at pp. 13-26 in Bell Atlantic's Direct Case.

9 47 C.F.R. Sections 36 and 69. As is more fully discussed below, the Part 36 and Part 69 calculations rely on, in part, the result of the initial allocation of VDT service expenses.

permit analyses that will ensure that the Commission can resolve these important cost issues.

The Commission's investigation, in large part, is designed to ensure that Bell Atlantic does not subsidize VDT service with telephony.[10] Cross-subsidization may occur if shared investment expenses are not properly allocated between telephony and video dialtone services. Accordingly, in its Designation Order, the Commission directed Bell Atlantic to "provide the dollar amounts of the investment expenses, taxes and other costs and cost components associated with the video dialtone service and explain the methodology used to derive these amounts."[11]

In response, Bell Atlantic states (Direct Case, p. 10) that all equipment and facilities are designated as either video only, voice only or shared between both. The shared investment is then allocated by use of the following methodology: "[t]he ratio of video only investments to the sum of video only and voice only

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[10] The "assignment of costs between telephony and video dialtone service is relevant and important." Designation Order at para. 8.

[11] Id. at para. 10.

investments was then developed and used to allocate the shared investment to video dialtone."[12]

Despite the apparent simplicity of Bell Atlantic's purported methodology, AT&T has been unable to replicate Bell Atlantic's allocation of shared investments and, therefore, cannot determine whether the shared investments are properly allocated between telephony and video dialtone.[13] Because approximately two-thirds of the

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[12] Direct Case, Preliminary Issues, pp. 10-11. Bell Atlantic should only be permitted to use this methodology when the shared investments cannot be allocated on an actual usage basis. When using the allocation methodology, Bell Atlantic should be required to allocate its shared investments at the account level.

[13] AT&T has attempted to apply the methodology to the information provided by Bell Atlantic. For example, AT&T attempted to replicate the allocation of shared investment shown for the Drop account (nos. 2411, 2421, 2423), a broadcast channel account. See Direct Case, Broadcast Channels Total Investment and Annual Costs, Attach. Pre(4), page 3 of 5 ("Attach. Pre(4)"). The attachment shows the total of $342.94 for video and telephony investment per subscriber, $66.79 for video only investment per subscriber, $ 81.10 for voice only investment per subscriber, $195.05 for shared investment per subscriber, and $122.03 for total video investment per subscriber. See Attach. Pre(4), Columns A, B, C, D, and E, respectively. Applying the methodology described above, the total video investment per subscriber (Column E) would be $154.88, not the $122.03 shown on the attachment. Using the methodology, the ratio of video only investments ($66.79) to the sum of video only and voice only investments ($66.79 + $81.10 = $147.89) is 45.2%. Applying the 45.2% to the $195.05 of shared investment results in an allocation of shared investments related to video of $88.09 ($195.05 X 45.2%). The total video

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total projected costs associated with constructing the Dover VDT system are shared costs, the impact of an improper allocation could be significant. Specifically, total costs are projected to be $68,402,434; of that total, Bell Atlantic projects that $45,593,096 will be attributable to shared investment.[14] Thus, even a net ten percent misallocation of shared investment to telephony accounts would result in a $4.6 million subsidy for the Dover VDT service.

The impact of an unworkable methodology goes beyond determining whether Bell Atlantic's tariffed rates are justified. Providing a usable methodology also is instrumental in ensuring that Part 36 and Part 69 calculations are properly performed. By inaccurately allocating shared investments, the costs assigned to Part 36 jurisdictional separations and Part 69 interstate

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investment, therefore, would be $154.88 ($88.09 + $66.79), not $122.03, a discrepancy of over 25 percent.

It does appear that for some accounts the opposite result occurs; that is, the amount of total video investment per subscriber shown in Bell Atlantic's attachments is higher than the amount calculated using the described methodology. In either case AT&T is unable to replicate Bell Atlantic's allocation of shared investment to video.

[14] See Direct Case A(2) Response, p. 16.

access, which are based on the proper allocation of those shared investments, will also be incorrect.

Because Bell Atlantic has not adequately responded to the Commission's request, the Commission still does not have before it the information necessary to determine whether the rates in the Dover Township video dialtone tariff are adequately justified. Bell Atlantic, thus, must be required to explain the methodology that it used to allocate shared investment.[15]

Bell Atlantic has also failed to respond to the related issue, raised in the Designation Order, of justifying its allocation of costs associated with existing, embedded plant.[16] Nowhere in its Direct Case does Bell Atlantic address this concern. Rather, Bell Atlantic only provides information related to "incremental investments."[17]

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15 In particular, Bell Atlantic should describe whether the methodology used to allocate the investment expense was at the Financial Reporting Code level, the account level, and at the aggregate level across accounts.

16 Issue A of the Designation Order asks: "Has Bell Atlantic reasonably assigned the costs associated with primary plant among wholly dedicated video dialtone costs, wholly dedicated telephony costs, and shared costs?"

17 See Direct Case, Broadcast Channels Total Investment and Annual Costs, Attach. Pre(2), page 5 of 7 ("Attach. Pre(2)").

As AT&T has previously noted, because certain embedded investments whose use will now be shared by VDT service (such as testing equipment, land and buildings) were previously allocated exclusively to voice services, reallocating those investments to reflect the new shared use must necessarily result in some decrease in their existing allocation to telephony services.[18] Bell Atlantic's failure to comply with the Commission's requirement that it explain how this shared investment will be allocated between telephony and VDT service prevents a thorough analysis of the reasonableness of its VDT rates, and is thus fatal to its Direct Case. The Commission cannot conclude, based on this inadequate record, the lawfulness of Bell Atlantic's tariff, at least until Bell Atlantic supplements the record and adequately demonstrates the reasonableness of the method used.[19]

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[18] See, e.g., Bell Atlantic Telephone Companies Revisions to Tariff F.C.C. No. 10, Transmittal No. 741, AT&T's Petition to Reject or, in the Alternative, to Suspend and Investigate, filed February 21, 1995.

[19] Bell Atlantic's failure to provide a methodology to allocate existing plant between telephony and video dialtone is not a new problem. In fact, AT&T noted this problem in its petition to reject the initial tariff revisions set forth in Bell Atlantic's Transmittal No. 741. See, e.g., Bell Atlantic Telephone Companies Revisions to Tariff F.C.C. No. 10, Transmittal No. 741, AT&T's Petition to Reject or, in the Alternative, to Suspend and Investigate, filed February 21, 1995. As noted above with regard to incremental investments (see n.12, supra), Bell

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WHEREFORE, for the reasons stated above, the Commission should require Bell Atlantic to provide the necessary information to permit a meaningful analysis of the costs underlying its Dover VDT tariff, in order to determine whether those tariff rates are just and reasonable. Until such time, the Commission has an incomplete record upon which to judge the lawfulness of the tariff.

Respectfully submitted,

AT&T Corp.

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Atlantic also should be required to allocate its embedded investment at the account level.

CERTIFICATE OF SERVICE

I, Ann Marie Abrahamson, do hereby certify that on this 30th day of November, 1995, a copy of the foregoing "AT&T's Comments on Direct Case" was mailed by U.S. first class mail, postage prepaid, to the parties listed below.

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